Novitas Energy Ltd

2001 Annual Report

Novitas Energy Ltd. (CDNX symbol - NOS) is a junior oil and gas producer that develops and produces oil and natural gas in the Provinces of Alberta and Saskatchewan.

The Company's business strategy is to strive to maximize shareholder value by applying long-term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for our shareholders.

Contents

Annual General Meeting The Annual Meeting of Shareholders will be held on Tuesday, June 18, 2002, in the Barclay Room at the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, at 10:00 a.m. (Calgary time).

Novitas Energy Ltd

Highlights	2001
For the Period June 15, 2001 to December 31, 2001	
Financial ($000, except $ per share)	
Revenue – oil and gas (net of royalties)	*531*
Cash Flow from Operations	*66*
Per Share Diluted	*0.01*
Net Loss	*(92)*
Per Share Diluted	*(0.01)*
Cash Capital Expenditures and Acquisitions	*8,358*
Outstanding Debt	*3,146*
Shareholders' Equity	*5,020*
Shares Outstanding (weighted average) (000's)	*16,296*
Operations	
Oil and Liquids (barrels per day)	*160*
Average Price ($ per barrel)	*$18.84*
Natural Gas (MCF per day)	*46*
Average Price ($ per MCF)	*$ 2.82*
***Reserves** (proven producing)*	
Oil and Liquids (barrels in 000's)	*2,027*
Natural Gas (MCF in 000's)	*242*

Report to Shareholders

It is with great pleasure that we present to our shareholders the Company's first Annual Report. The Board of Directors and Management wish to take this opportunity to welcome our new shareholders. We look forward to a successful and long-term association.

Novitas Energy Ltd. became a publicly traded corporation on The Canadian Venture Exchange (since renamed TSX Venture Exchange) in October 2001. The Company issued 35,426,224 shares at a price of $0.15 per share for net proceeds of $5,208,000 after costs.

Company Objectives

The Company will be attempting to grow by acquisitions of producing oil and gas properties, by optimizing production and reducing operating costs for acquired properties, and by drilling prospects that are developed internally or through farmout arrangements with other companies. We anticipate that almost all of our activity will be in the Provinces of Alberta and Saskatchewan.

Major Property Acquisitions

In October 2001 and January 2002 the Company was successful in acquiring two companies whose producing properties are located mainly in the Shaunavon area of Southwestern Saskatchewan. Total production from these acquisitions is approximately 450 barrels of oil equivalent per day (BOE/D) consisting mainly of 22 degree API heavy crude oil. At the time of the acquisitions of this production, oil prices for this quality of crude were quite low. Since the acquisitions prices have substantially increased, and also from initial analysis, we are optimistic with regard to increasing production from this area and also in reducing operating costs.

Proven reserves from the Company's 2001 acquisitions are estimated at 2,102,000 BOE's at an approximate cost of $3.98 per BOE. The January 2002 acquisition is not included in these numbers, but will have a similar cost on a BOE basis. The acquisitions have been paid for from funds from the Company's initial public offering and from bank loans.

Financial

Oil and natural gas revenue (net of royalties) was $531,088 during the period June 15 to December 31, 2001. Cash flow from operations was $66,435. Net loss was $92,376 in the 2001 period. The figures were significantly influenced by the October 1, 2001 acquisition of a private company. The primary asset of the private company was heavy gravity oil. This quality of oil sometimes sells at high differentials to light sweet gravity crude and during such times the price received is substantially lower than the lighter gravity crudes. The Company accepts these wide swings, recognizing that during some periods profits and cash flow will be exceptional and other times will be quite low. (The average price received for Q4 2001 was $18.84 Cdn. and in March and early April 2002 the price fluctuated between $30 and $35 Cdn.)

Outlook

The Company is presently evaluating and assessing rework programs on existing producing wells and determining whether there are additional drilling opportunities on these lands. The Company has also been active in acquiring interests in non-producing lands and will be drilling exploration prospects on these lands during 2002. We will be attempting to grow the Company through further acquisitions and by drilling on internally developed or farmin prospects from independent third parties.

We wish to thank all of our shareholders for participating with us in our new venture.

Submitted on behalf of the Board of Directors,

George F. Fink

President and Director

Reserves

The enclosed reserve evaluation was prepared by the Company. Production declines used for proven producing reserves are based on historical performance of individual wells or production units. Projected operating costs are consistent with the wells historical operating costs in each respective area adjusted for anticipated inflation of one and a half percent.

The reserves are located primarily in the Province of Saskatchewan. The majority of the Company's production is comprised of sweet 22 degree API crude. The Company's main oil producing area is located in the Shaunavon area of Saskatchewan. Oil and natural gas proven reserve estimates at December 31, 2001, before royalties, are as follows:

	Crude Oil and Liquids (MBbls)		Natural Gas (MMCF)	
	Proven	Probable	Proven	Probable
June 15, 2001	–	–	–	–
Acquisitions	2,059	–	258	–
Production	(32)	–	(9)	–
December 31, 2001	2,027	–	249	–
Life index (years) – December 31, 2001	16.6		6.8	

The life index is calculated based on year end production rates of 335 barrels per day of oil and natural gas liquids and 100 MCF per day of natural gas.

The reserve values in the following table, "Estimated Present Worth of Reserves", are based upon proven producing reserve estimates at December 31, 2001.

Estimated Present Worth Of Future Net Production Revenue

		Discounted at the rate of		
($ thousands)	Undiscounted	10%	15%	20%
Proven reserves at December 31, 2001	26,376	10,360	7,982	6,489

Commodity prices used in the above calculations of reserves are as follows:

Year	Edmonton Par (Cdn $ per barrel)	AECO Monthly Index (Cdn $ per MCF)	Hardisty Bow River[1] (Cdn $ per barrel)
2002	36.95	4.58	25.92
2003	32.28	4.43	25.70
2004	31.90	4.14	26.88
2005	32.41	4.21	27.42
2006	32.90	4.28	27.89
2007	33.40	4.36	28.35
2008	33.91	4.44	28.83
2009	34.42	4.52	29.31
2010	34.95	4.60	29.80
2011	35.48	4.69	30.30
2012	36.01	4.77	30.81

Crude oil, natural gas and liquid prices escalate at 1.5% per year thereafter.

(1) The majority of the Company's oil production is similar in quality to Hardisty Bow River crude oil.

Production

The following table provides a summary of exit production volumes from our producing areas.

	Oil and NGL (Bbls/day) 2001	Natural Gas (MCF/day) 2001
Shaunavon, Saskatchewan	287	–
Various non operated interests, Alberta	33	94
Pembina, Alberta	15	6
	335	100

Land Holdings

The Company's holdings of petroleum and natural gas leases and rights are as follows:

	Gross Acres	Net Acres
Saskatchewan	17,735	16,641
Alberta	5,160	968
	22,895	17,609

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the period:

Period ended December 31	
Property acquisitions (see below)	*$10,348,759*
Land costs	*362,020*
Seismic	*37,957*
Facility costs	*25,056*
Net petroleum and natural gas capital expenditures	*$10,773,792*

The Company's cash cost of the property acquisitions was $7,925,650 consisting of a single property acquisition of $650,000 and an acquisition of a private company for $7,275,650. Due to current accounting conventions, the actual cost of the properties acquired through the acquisition of the private company was required to be recorded at an accounting cost of $9,863,000 with a corresponding future tax liability of $2,588,000.

Drilling History

No wells were drilled during the period June 15 to December 31, 2001.

Property Discussions

The Company's major producing property is located in the Shaunavon area of southwest Saskatchewan. Novitas continues to acquire exploration lands in the west central area of Saskatchewan and the west central area of Alberta.

Southwest Saskatchewan

Novitas operates its' major producing property in the Shaunavon area. The property presently has 45 producing wells. The Company's working interest in most of this land is 93 percent. The properties are located in the Whitemud and Chambery fields and produce 22 degree API crude oil from mainly the upper Shaunavon formation, with some production from the lower Shaunavon formation, located at a depth of approximately 5,000 feet. A portion of the property is being produced under waterflood with the majority of the property still on primary production. The wells in the Shaunavon area generally have a very long life and stable low decline rates.

Novitas assumed operatorship of the property in mid October, 2001 and has been conducting an aggressive review of operating costs and assessing production enhancement opportunities. The Company believes that there are opportunities to increase production from the Shaunavon property by re-completing and stimulating existing wells, by infill drilling, by waterflood enhancements and potentially initiating new waterflood projects. Waterflooding the upper Shaunavon has been very successful in the area when properly implemented in a reservoir with suitable characteristics.

Exploration Lands

Novitas has been working on developing a varied portfolio of exploration opportunities that could significantly increase production and reserves while maintaining risk at acceptable levels. The Company has acquired lower risk lands with shallow gas potential in west central Saskatchewan and higher risk lands with deep gas potential in west central Alberta. The Company plans on having the acquired exploration lands drilled in 2002 and is continuing to investigate other internally generated opportunities.

Management's Discussion and Analysis

This report is a review of the operations, current financial position and outlook for the Company and should be read in conjunction with the audited financial statements for the fiscal period ended December 31, 2001, together with the notes related thereto.

Production

The Company's average production of oil and natural gas liquids was 160 barrels per day and 46 MCF per day of natural gas. The Company commenced operations on June 15, 2001, with an acquisition of a producing oil and natural gas property from its former parent company Bonterra Energy Corp. Production from this property is approximately 17 barrels of oil equivalent (BOE) per day using a 6 to 1 conversion of natural gas to oil equivalent.

Effective October 1, 2001, the Company acquired a private oil and gas company. As a result of this acquisition production increased to approximately 350 BOE per day. On January 3, 2002, the Company acquired another private oil and gas company. This acquisition resulted in a further increase in production of approximately 110 BOE per day.

Revenue

Gross revenue from oil and natural gas sales was $632,065. The average price received for crude oil and natural gas liquids was $18.84 Cdn. per barrel and $2.82 Cdn. per MCF of natural gas. West Texas Intermediate crude oil prices were fairly low during the fourth quarter of 2001, fluctuating between $18 and $22 U.S. Of more significance however, is that most of the Company's crude oil is 22 degree API oil and therefore during certain periods is subject to high differentials compared to light sweet gravity crude (40 degree API). The differential was very high during the fourth quarter of 2001 resulting in a low price of $18.84 Cdn. When the Company made the acquisition of the property producing this type of crude oil, it was aware of the wild fluctuations in price. During March and early April, 2002, the price for this quality crude oil had increased to the $30 to $35 Cdn. range.

Subsequent to year end, the Company has entered into a hedging agreement for the period April 1, 2002 to December 31, 2002 for 175 barrels per day of its crude oil at $30.44 Cdn. per barrel. This price incorporates an approximate differential from light sweet crude of $7.50 per barrel.

The acquisition effective January 3, 2002 as well as the recent increase in oil prices should result in a substantial increase in revenues and cash flow for 2002.

Royalties

Royalties paid by the Company include both Crown royalties ($55,370) paid to the Provinces of Alberta and Saskatchewan and freehold and gross overriding royalties ($45,607). The Company currently does not have any royalties which would be eligible for the Alberta Royalty Tax Credit program.

Production Costs

Production costs totalled $325,204 in the six and a half month period in which the Company operated in 2001. On a BOE basis, production costs averaged $9.69. The Company has reviewed the field operations of the Shaunavon property and programs will be put into place to reduce future operating costs. The average production costs of the private company acquired January 3, 2002 was approximately $2.50 per BOE which will assist in reducing future production costs on a BOE basis.

General and Administrative Expense

General and administrative expenses were $93,596 or $2.79 per BOE. General and administrative costs included approximately $50,000 in one time company start up costs. Additional production from the January 3, 2002 acquisition plus the elimination of the above one time costs should significantly reduce general and administrative costs on a BOE basis in 2002.

Interest Expense

Interest expense for the 2001 fiscal period was $54,454. Interest costs include $4,178 paid to Bonterra Energy Corp. for the Company's original property acquisition and $7,463 for letter of credit charges to facilitate the October 1, 2001 acquisition of a private company.

Interest rates charged by the company's banker during the period on the outstanding debt averaged 4.35 percent. The Company has the ability to use Bankers Acceptances (BA's) as part of its loan facility. Interest charges on BA's are generally one half percent lower than that charged on the general loan account.

Depletion, Depreciation, Future Site Restoration and Dry Hole Costs

The Company depletes its oil and natural gas intangible assets using the unit of production basis by field. For tangible assets such as well equipment, a life span of ten years is estimated and the related tangible costs are depreciated at one tenth of original cost per year. Provisions are made for future site restoration based on management's estimation of abandonment requirements using current costs and amortized on a unit of production basis by field. For the fiscal period ending December 31, 2001, the Company expensed $236,295 for the above-described items.

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. During the 2001 fiscal period, the Company did not participate in drilling any wells.

Income Taxes

The Company has adopted the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary difference will reverse. The liability on the balance sheet and the corresponding income recovery relates to temporary differences existing between the Company's book value of its assets and its remaining tax pools. The Company received tax pools significantly less than the acquisition costs for the companies, and as such had to record a sizable future income tax liability.

The tax pool balances at the end of 2001 totalled $4,818,282 and consisted of the following pool balances:

Undepreciated capital costs	$1,226,115
Canadian oil and gas property expenses	3,243,965
Canadian development expenses	10,659
Canadian exploration expenses	37,957
Non-capital loss carryforward	198,314
Finance expenses	101,272
	$4,818,282

Net Loss

The Company incurred a net loss of $92,376 for its first period of operations. The loss was the result of the low crude oil price received in the October to December 2001 time period as well as costs associated with starting up a new public company. With the acquisition of additional production on January 3, 2002 plus an almost doubling of the crude oil price for this quality of crude subsequent to the year end, it is anticipated that Novitas should have substantial net earnings for 2002.

Cash Flow from Operations

Cash flow from operations for the fiscal period ending December 31, 2001 was $66,435. Due to the production acquired on October 1, 2001 producing for a full year in 2002, and the additional production acquired January 3, 2002 plus increased commodity prices should dramatically increase 2002 cash flow.

Cash Netback

The following table illustrates the Company's cash netback:

$ per BOE

Production volumes (BOE)	33,570
Gross production revenue	$ 18.83
Royalties	(3.01)
Field operating	(9.69)
Field netback	6.13
General and administrative	(2.79)
Interest and taxes	(1.65)
Cash netback	$ 1.69

Liquidity and Capital Resources

At December 31, 2001 the Company had bank debt of $3,145,654. The Company's credit facility at year-end consisted of a revolving line of credit of $6,000,000 and carried an interest rate of one half percent above Canadian chartered bank prime.

As previously mentioned, the Company acquired a private company on January 3, 2002 for cash of $1,963,618. The acquisition was funded from the Company's existing line of credit.

The credit facility allows for borrowings by means of Bankers Acceptances (BA's). The effective interest rates of BA's are generally half a percentage point lower than that available under the normal credit facility. The Company attempts to maximize the amount of its credit facility used by financing with BA's to reduce overall interest costs. Collateral for the loan consists of a demand debenture providing a first floating charge over all of the Company's assets, and a general securities agreement. Comstate Resources Ltd. (Comstate), a company with common management, has guaranteed $3,000,000 of this loan. In consideration for the guarantee the Company has entered into a management agreement whereby Comstate will provide all management services on a fee for service basis.

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,538,000 shares of common stock. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options vest one-third each year for the first three years of the option term.

On October 1, 2001, the Company issued 2,274,000 stock options to its directors, officers, employees, and consultants at a price of $0.15 per option. The options vest one-third on each of October 1, 2002, October 1, 2003 and October 1, 2004 and expire on September 30, 2006.

Business Prospects, Risks, and Outlooks

The resource industry operates with a great deal of risk. The most significant risks may come from oil and natural gas price swings, the uncertainty of finding new reserves from drilling programs or acquisitions, competition within the industry, and increasing environmental controls and regulations.

The prices received for crude oil are established by world market forces and for natural gas by forces within North America. Fluctuations in pricing can have extremely positive or negative effects on the Company's cash flow or in the value of its producing and non-producing oil and natural gas properties.

The Company presently attempts to minimize these risks by pursuing both oil and natural gas activities. The Company may sometimes elect to protect against price fluctuation by using commodity hedging. The Company has hedged approximately 40 percent of its oil and gas production. Please see discussion under revenue and notes to the financial statements for details. The Company operates its oil and natural gas interests in areas which have long life reserves, where it has the technical expertise to enhance production, control operating costs and to increase profit margins.

Sensitivity Analysis

Sensitivity analysis, which includes production from the January 3, 2002 acquisition, as estimated for 2002 follows:

	Cash Flow	*Cash Flow Per Share*
U.S. $1.00 per barrel	*$189,000*	*$0.005*
Canadian $0.10 per MCF	*$ 3,000*	*$0.000*
Change of Canadian $0.01/U.S. $ exchange rate	*$ 68,000*	*$0.002*

Management's Responsibility For Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte & Touche LLP has been appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed these financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this annual report.

George F. Fink
President

Garth E. Schultz
Vice President, Finance

Auditors' Report

To the Shareholders of Novitas Energy Ltd.:

We have audited the balance sheet of Novitas Energy Ltd. as at December 31, 2001 and the statements of loss and deficit and of cash flow for the period from incorporation, June 15, 2001, to December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flow for the period from incorporation, June 15, 2001, to December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
March 22, 2002

Chartered Accountants

Novitas ENERGY LTD

Balance Sheet

As at December 31, 2001 (Note 1)

Assets	
Current	
Accounts receivable	$ 386,627
Prepaid expenses	8,060
	394,687
Property and Equipment (Note 3)	
Property and equipment	10,773,792
Accumulated depletion and depreciation	(199,396)
Net property and equipment	10,574,396
	$10,969,083
Liabilities	
Current	
Bank indebtedness	$ 36,238
Accounts payable and accrued liabilities	396,810
	433,048
Long-term debt (Note 4)	3,145,654
Future income tax liability (Note 7)	2,340,317
Future site restoration	29,577
	5,948,596
Shareholders' Equity	
Share capital (Note 5)	5,252,457
Excess of cost of petroleum and natural gas properties over related net book value of vendor corporation (Note 3)	(139,594)
Deficit	(92,376)
	5,020,487
	$10,969,083

On behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

Novitas Energy Ltd

Statement of Loss and Deficit

Period ended December 31, 2001 *(Note 1)*	
Revenue	
Oil and gas sales, net of royalties of $100,977	$ 531,088
Production costs	(325,204)
Interest and other	9,601
	215,485
Expenses	
General and administrative	93,596
Interest on long-term debt	54,454
	148,050
Cash Flow From Operations Before Current Income Taxes	67,435
Depletion, depreciation and future site restoration	236,295
Loss Before Income Taxes	(168,860)
Income Taxes (Recovery) *(Note 7)*	
Current	1,000
Future	(77,484)
	(76,484)
Loss For The Period	$ (92,376)
Retained Earnings, Beginning of Period	–
Deficit, End of Period	$ (92,376)
Loss Per Share (Basic) *(Note 2)*	$ –
Loss Per Share (Diluted) *(Note 2)*	$ –

Novitas Energy Ltd

Statement of Cash Flow

Period ended December 31, 2001 (Note 1)

Operating Activities	
Loss for the period	$ (92,376)
Items not affecting cash	
Depletion, depreciation and future site restoration	236,295
Future income taxes	(77,484)
Cash Flow from Operations	66,435
Change in non-cash operating working capital items	2,123
	68,558
Financing Activities	
Increase in long-term debt	3,145,654
Issue of common shares for cash	5,313,935
Share issue costs	(107,143)
	8,352,446
Investing Activities	
Property and equipment expenditures	(8,457,242)
Bank Indebtedness, End of Period	$ (36,238)

Period ended December 31, 2001 (Note 1)

1. INCORPORATION AND COMMENCEMENT OF OPERATIONS

The Company was incorporated in the Province of Alberta on June 15, 2001 and acquired its initial property on this date (see Note 3). The financial statements represent the operations of the Company from this date to December 31, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When property is found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proven reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse.

Future Site Restoration

The Company provides for future site restoration and abandonment costs over the estimated production life of its property and equipment. Estimates of these amounts are based on the anticipated method and extent of site restoration using current costs and in accordance with existing legislation and industry practice. The annual charge is included with depletion, depreciation and future site restoration.

Stock-based Compensation Plan

The Company has a stock-based compensation plan as described in Note 5. No compensation expense is recognized for the plan when stock or stock options are issued. Consideration paid on exercise of stock options is credited to share capital.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Loss Per Common Share

The Company uses the treasury stock method of calculating loss per common share in accordance with the new CICA Handbook Section 3500. Loss per common share is calculated using the weighted average number of common shares outstanding during the period. The number of shares used to calculate diluted loss per share for the period ended December 31, 2001 of 17,342,113 included the weighted average number of shares outstanding of 16,296,073 plus 1,046,040 shares related to the dilutive effect of stock options.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation
Undeveloped Land	*$ 362,020*	*$ –*
Petroleum and natural gas properties and related equipment	*10,411,772*	*199,396*
	$10,773,792	*$ 199,396*

The Company acquired petroleum and natural gas properties from its then parent company Bonterra Energy Corp. (Bonterra) effective June 15, 2001 for cash of $650,000. As this transaction was conducted with a related party, the Company is required to record the oil and gas properties acquired at Bonterra's carrying value which was $388,087. The difference between the purchase price and the carrying value, net of future income taxes, is charged directly against shareholders' equity.

The Company purchased 100 percent of the outstanding shares of a private corporation for cash consideration of $7,275,650. The acquisition was effective October 1, 2001 and the private company has been dissolved. The allocation of the purchase price, based upon the fair value of the assets acquired and liabilities assumed, was as follows:

Intangible assets	*$ 7,642,614*
Tangible assets	*2,220,821*
Future tax liability	*(2,587,785)*
	$ 7,275,650

During the period no general and administrative expenses were capitalized.

4. LONG-TERM DEBT

On October 19, 2001, the Company entered into a long-term revolving credit facility of $6,000,000 with its principal banker. The terms of the credit facility provide that the loan is due on demand and is subject to annual review. The credit facility can be drawn by way of a bank prime rate loan, banker acceptances (BA's), letters of credit and letters of guarantee. The interest rate on the prime rate loan is the bank's prime rate plus .50 percent. The interest rate of BA's is the banks BA rate plus 1.75 percent. The letters of credit and gurantee are issued for a fee determined by the bank at the date of issue. The credit facility has no fixed payment requirements. Collateral for the loan consists of a demand debenture providing a first floating charge over all of the Company's assets, and a general securities agreement. Comstate Resources Ltd. (Comstate), a company with common management, has guaranteed $3,000,000 of this loan. In consideration for the guarantee the Company has entered into a management agreement whereby Comstate will provide all management services on a fee for service basis (see Note 6).

Cash interest paid in the period for the above loan was $42,813. Interest expense of $4,178 also was paid to the Company's former parent corporation for a temporary loan to initially finance the corporate acquisition of its oil and gas property.

5. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Issued	Number	Amount
Common Shares		
Balance, beginning of period	–	$ –
Issued to parent on incorporation	10	2
Issued pursuant to initial public offering	35,426,224	5,313,934
Share issue costs	–	(107,143)
Future tax benefit of share issue costs	–	45,664
Balance, end of period	35,426,234	$5,252,457

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,538,000 shares of common stock. The exercise price of each option granted equals the market price of the Company's stock on the date of grant and the option's maximum term is five years. Options vest one-third each year for the first three years of the option term.

On October 1, 2001, the Company issued 2,274,000 stock options to its directors, officers, employees and consultants at a price of $0.15 per option. The options vest one-third on each of October 1, 2002, October 1, 2003 and October 1, 2004 and expire on September 30, 2006.

6. MANAGEMENT AGREEMENT

The Company paid a management fee to Comstate for management services of $5,000 per month effective October 2001 ($1,000 per month July to September). Total payments made during the period was $18,000 which has been included in general and administrative expenses.

The Company also paid administrative fees on a per well basis to Comstate for the administration of its oil and gas properties. Total amount paid during the period was $34,500. This amount, net of amounts related to joint venture partner interests, has been recorded in production costs.

7. INCOME TAXES

The Company has recorded a future income tax liability. The liability relates to the following temporary differences:

Temporary differences related to assets and liabilities	$2,471,612
Finance expense charged to shareholders' equity	(44,383)
Tax loss carry forward	(86,912)
	$2,340,317

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

Loss before income taxes	$ (168,860)
Combined federal and provincial income tax rates	43.83%
Income tax provision calculated using statutory tax rates	(74,011)
Increase (decrease) in income taxes resulting from:	
Non-deductible crown royalties	24,580
Resource allowance	(12,513)
Other	(15,540)
Capital taxes	1,000
	$ (76,484)

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization %	Amount
Undepreciated capital costs	20-100	$1,226,115
Canadian oil and gas property expenses	10	3,243,965
Canadian development expenses	30	10,659
Canadian exploration expenses	100	37,957
Non-capital loss carryforward	100	198,314
Finance expenses	20	101,272
		$4,818,282

8. FINANCIAL INSTRUMENTS

The carrying value of the financial instruments of the Company approximates their estimated fair values. Financial instruments include accounts receivable, accounts payable and accrued liabilities, and long-term debt.

9. SUBSEQUENT EVENT – ACQUISITION

On January 3, 2002, the Company acquired 100% of the outstanding shares of a private company for a cash payment of $1,925,100. The determination of the purchase price of the acquisition and allocations to the net assets and liabilities of the acquired company, based upon the fair value of the assets acquired and liabilities assumed, was as follows:

Cash Consideration	$ 1,925,100
Related Expenses and Fees	38,518
Total Purchase Price	$ 1,963,618
Purchase Price Allocation	
Net Working Capital	$ 98,434
Capital Assets	3,271,928
Long-term Debt	(186,281)
Future Income Taxes	(1,220,463)
Total Purchase Price	$ 1,963,618

To facilitate the above transaction, the Company issued a letter of credit in the amount of $1,845,100 to guarantee the purchase price subject to obtaining full shareholder consent from the private company shareholders. This letter of credit was not drawable until finalizing of the purchase and sale agreement and must have been drawn on prior to January 11, 2002. The letter of credit was drawn on January 3, 2002 as final payment for the acquisition.

In addition, a second letter of credit in the amount of $265,000 was issued to the private company's banker as security in place of certain liens against resource property held by the private company and shares held by shareholders of the private company. Upon completion of the above mentioned acquisition, the loan to which the letter of credit was used as security was paid in full and the letter of credit was cancelled.

10. SUBSEQUENT EVENT – COMMITMENTS

The Company entered into the following commodity hedging transaction subsequent to year end for a portion of its 2002 production:

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
April 1, to September 30, 2002	Crude Oil	175 barrels	Fosteron Crude	$30.44 per barrel

Board of Directors

G.J. Drummond, Calgary, Alberta

G.F. Fink, Calgary, Alberta

C.R. Jonsson, Vancouver, British Columbia

F. W. Woodward, Calgary, Alberta

Officers

G.F. Fink – President

R. M. Jarock – Operations Manager and Vice President, Acquisitions

S. L. Safronovich – Vice President, Operations

G.E. Schultz – Vice President, Finance, and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Parlee McLaws, Calgary, Alberta

Tupper, Jonsson & Yeadon, Vancouver, British Columbia

Bankers

The Royal Bank of Canada, Calgary, Alberta

Stock Listing

The Canadian Venture Exchange, Vancouver, British Columbia

Trading symbol: NOS

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